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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001623

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E.O. 12958: DECL: 05/10/2010
TAGS: [ETRD](#) [ECON](#) [PREL](#) [PGOV](#) [TW](#)
SUBJECT: TAIWAN'S OPPOSITION WANTS 3 LINKS

Classified By: AIT DIRECTOR STEPHEN M. YOUNG for reasons 1.5 (b), (d)

11. (C) Summary. KMT Vice Chairman Chiang Ping-kun told AIT Director Young May 1 that Taiwan's economic performance is slipping relative to its neighbors and the solution is to implement the three links. In an analysis heavily influenced by his partisan opposition to the current government, Chiang blamed legislative gridlock on erratic behavior by President Chen Shui-bian. End summary.

12. (U) Director Young paid an introductory courtesy call on Chiang Ping-kun May 1 to discuss economic and political issues. Chiang is Vice Chairman of the opposition Kuomintang (KMT) party with long experience in a wide variety of economic policy positions in Taiwan. Chiang accompanied honorary KMT Vice Chairman Lien Chan on his April 14-15 trip to Beijing and concluded a separate trip to southwest China on April 28.

Economics

13. (C) Given Chiang's long experience in economic policy issues, the Director asked why he is hearing that Taiwan's economy is weak when the numbers (real GDP growth of 4 percent, strong exports, rising stock exchange index) show real gains. Chiang stressed that Taiwan is not meeting its potential in the economic sphere. First, he said, Taiwan's per capita GDP has been exceeded by that of South Korea. He noted that Taiwan's per capita GDP has long exceeded that of South Korea, suggesting that losing ground to Korea was a hard lesson for Taiwan. Second, Chiang said Taiwan's real GDP growth rate lags behind that of neighboring East Asian economies. He cited real GDP growth rates from the past five years compared to the previous five years. For Taiwan, he

said the past five years produced an average annual growth rate of 3 percent, well less than the 6 percent rate achieved in the previous five years. By contrast, he said the rest of East Asia, with the exception of Japan and Singapore, has had higher average annual growth rates for the most recent five year period.

Implement 3 Links

¶4. (C) Chiang pointed to Taiwan's dismal domestic investment as the root cause of the relatively lackluster GDP performance. He said in the past, 50 percent of Taiwan's investment funds used to go to the PRC, but now some 80% of Taiwan's investment flows across the Strait. Investment from Taiwan, Japan and South Korea has fueled China's export growth so that China's exports now compete directly with exports from these three investors. He lamented that Taiwan is losing out in this process while South Korea and Japan are gaining. He said it is easy for Taiwan to overcome this problem simply by concluding the three links and implementing direct air flights and ocean shipping. In Chiang's view, Taiwan has a comparative advantage over Japan and South Korea in doing business in China because of similar language and culture and a closer geographic location just 90 miles across the Strait. With direct shipping, he said that many factories in Taiwan would not feel the need to relocate to the PRC and that Taiwan residents would be able to more easily commute from Taiwan for work while their families remained on the island instead of moving to the Mainland.

Invest for the Future

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¶5. (C) The Director queried Chiang about the difficulties for Taiwan firms to manufacture in China and protect their intellectual property. Chiang said Taiwan cannot compete by manufacturing the same products that China is now exporting. Instead, Taiwan needs to expend more on research & development to develop its own technologies and manufacturing niches that are distinct from China's. Chiang acknowledged that the PRC has squeezed the DPP government since President Chen Shui-bian took office, but blamed it on the DPP's single-minded focus on Taiwan independence. He complained that for the DPP, politics always trumps economic policy.

Military Budget

¶6. (C) The Director asked why the KMT does not view the PRC as more of a potential threat and so join with the DPP to pass the special military budget. Chiang said the KMT has a long history of supporting Taiwan's defense needs, but argued that once the debate over the military budget got underway it was hard to stop it. Indicating a personal disagreement with KMT military budget opposition, Chiang said the KMT should have made maintenance of the status quo across the Straits as its top priority followed by defense policy and weapons purchases. He said that current KMT Chairman Ma Ying-jeou is working with PFP Chairman James Song to develop a military budget and to work with the DPP to pass it.

Good Governance

¶7. (C) The Director asked Chiang for suggestions on how the KMT and DPP could move past their reflexive opposition and find ways to govern effectively. Chiang carefully separated personalities from their individual parties. He said that he has always advocated working cooperatively with the DPP, but that whenever the KMT presents a proposal on an issue, the DPP relentlessly attacks. Chiang said the problem is that President Chen is not a dependable partner. Chiang said the six years of DPP rule have been wasted because Chen does not have a blueprint for the future. As an example, Chiang said

the DPP resolved early on to reform the government structure, but has failed to implement any structural reform. In contrast, Chiang said Mayor Ma and his squeaky clean image represents the new KMT and that Ma has a vision and a plan of how to implement his vision.

Comment

18. (C) Chiang was well prepared to discuss economic issues, offering a full description of the problems and proposing specific solutions. Other KMT members and supporters have been noticeably short on details when asked the same kind of questions. The most common response we have heard is that the KMT would put "better people" in office so there wouldn't be so many scandals. Chiang's responses on political issues were not as polished, generally failing to recognize any KMT responsibility for the recent years of legislative gridlock or for blocking DPP initiatives to implement reforms in government structure, the financial sector and other areas.

End Comment.

YOUNG